Supreme Court, U.S.
FILED
NOV 2 3 2010
OFFICE OF THE CLERK

No. 10-509

In the Supreme Court of the United States

AVID IDENTIFICATION SYSTEMS, INC.,
Petitioner,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA AND DATAMARS, INC.,
Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

JUANITA R. BROOKS
Counsel of Record
JOHN W. THORNBURGH
MICHAEL A. AMON
CRAIG E. COUNTRYMAN
Fish & Richardson P.C.
12390 El Camino Real
San Diego, CA 92130
(858) 678-5070
brooks@fr.com

Counsel for Petitioner

2010 – Bachman Legal Printing ■ (612) 339-9518 ■ 1-800-715-3582 ■ Fax (612) 337-8053

TABLE OF CONTENTS

Page

INTRODUCTION 1

ARGUMENT 2

A. The Questions Presented Are Issues of Law, and Their Answers Warrant Reversal. 2

B. The Federal Circuit's Decision Will Further Exacerbate the Recognized Harms from the Inequitable Conduct Doctrine. 4

C. There is Still an Article III Controversy in This Case 7

D. At a Minimum, This Court Should GVR for Reconsideration After *Therasense*. 10

CONCLUSION 11

TABLE OF AUTHORITIES

Page(s)

CASES

Aqua Marine Supply v. AIM Machining, Inc.,
247 F.3d 1216 (Fed. Cir. 2001) 8

Gator.com Corp. v. L.L. Bean, Inc.,
398 F.3d 1125 (9th Cir. 2005) (*en banc*) 8

Global-Tech Appliances, Inc. v. SEB S.A.,
No. 10-6 2

Havens Realty Corp. v. Coleman,
455 U.S. 363 (1982) 7, 8, 9

KSR Int'l Co. v. Teleflex Inc.,
550 U.S. 398 (2007) 2

Nixon v. Fitzgerald,
457 U.S. 731 (1982) 7, 8, 9

Pfaff v. Wells Elecs., Inc.,
525 U.S. 55 (1998) 2

Therasense, Inc. v. Becton, Dickinson, & Co.,
2010 WL 1655391 (Fed. Cir.) 10, 11

STATUTES AND REGULATIONS

35 U.S.C. § 282 4

37 C.F.R. § 1.56(c) 6

INTRODUCTION

Allflex's brief is striking for what it does not say. It does not dispute Avid's description of this Court's inequitable conduct precedent. It does not dispute the Federal Circuit's jurisprudence has "significantly diverged" from that precedent. It does not dispute that this Court has never extended a charge of "fraud on the Patent Office" to someone who was not involved with the preparation or submission of any information regarding patentability. It does not dispute that the Federal Circuit's expansion of the doctrine has flooded the Patent Office with marginally relevant information, decreased patent quality, driven up the costs of litigation, and exposed reputable people to unfounded personal attacks.

Instead, Allflex tries to recast the issues here as factual questions. They are not. The appropriate standards governing (1) who may be accused of inequitable conduct and (2) what information is so "material" that failure to disclose it to the Patent Office is considered fraud are pure issues of law. If this Court confirms that Avid has articulated the right legal standard for either issue, there can be no inequitable conduct on the facts found by the district court. Allflex never argues otherwise.

Allflex also claims the federal courts no longer have Article III jurisdiction over this case. This Court's cases hold otherwise. The settlement between Avid and Datamars expressly carved out this issue, and the jury's entire award for patent infringement damages is still at stake on appeal. That preserves Article III jurisdiction. Further, Allflex's continued vigorous opposition to Avid's appeal demonstrates the issues here will receive adversarial presentation if the Court grants *certiorari*.

ARGUMENT

A. The Questions Presented Are Issues of Law, and Their Answers Warrant Reversal.

Avid's petition asks the Court to address pure issues of law, not to make new fact findings "in the first instance" or disturb a "discretionary" determination, as Allflex argues. Opp. at 4, 14. If the Court were to agree with Avid's proposed legal standards, there could be no inequitable conduct under the facts found by the district court. The Court routinely grants *certiorari* to set the legal standard for issues in patent cases and apply that standard to the facts. See, e.g., *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6 (agreeing to address the legal standard for the mental state required to induce patent infringement and to apply it to facts as found after a jury trial); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (articulating the legal standard for obviousness and applying it to facts on a summary judgment record); *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998) (articulating the legal standard for whether an invention is "on sale" and applying it to the district court's factual findings).

Avid is asking the Court to do the same here. Question 1 of the petition asks whether, as a matter of law, a patent may be held unenforceable based on the actions of an individual who was not involved in the preparation or submission of any evidence or argument to the Patent Office to convince it to issue the patent. Pet. at i. Avid has always maintained that Dr. Stoddard, who was the only person found to have committed inequitable conduct, (App. 12a n.1), had no such involvement and no knowledge of the technical or legal merits of the patent application.

The district court never found that Dr. Stoddard was involved in preparing or submitting anything to the Patent Office related to patentability. Indeed, as Judge Linn explained in dissent, the only evidence on this issue—uncontroverted testimony from Dr. Malm, the attorney responsible for the patent application—stated that Dr. Stoddard had no such involvement. (App. 26a-27a; C.A.App. A14100, A14104, A16649-50.)

Allflex focuses on the district court's findings that Dr. Stoddard (1) was generally involved in Avid's marketing, sales, research, and development efforts and (2) hired the inventors. Opp. at 16-17. Allflex also stresses he was "no mere typist or clerk," and casts aspersions on Dr. Stoddard's credibility. Opp. at 16, 18-19. But this is all irrelevant under this Court's precedent and a proper reading of the applicable Patent Office regulation. Nothing shows that Dr. Stoddard was involved in preparing or submitting information to the Patent Office about patentability, as opposed to exercising high-level oversight over a variety of Avid's activities, as any executive or manager would. He never discussed the '326 patent with the inventors or with the one person who did prepare and submit information to the Patent Office—Dr. Malm. (C.A.App. A14100, A14104, A16649-50.) Nothing suggests Dr. Malm's testimony to this effect was untruthful. Indeed, there is no evidence to the contrary, and the district court never found otherwise. Thus, if the Court answers question 1 "no," there can be no finding of inequitable conduct under the facts found by the district court.

Similarly, question 2 asks whether, as a matter of law, a patent may be rendered unenforceable due to failure to disclose prior art that neither invali-

dates the patent nor contradicts the applicant's statements to the Patent Office. Pet. at i. Again, the district court never found Avid's prior products rendered the claims invalid, under either § 102(b) or for obviousness. On the contrary, the jury found they do not. (App. 40a.) Likewise, the district court never found that Avid's prior products contradicted any statement to the Patent Office.

It did find that Avid's prior products were the "closest prior art" and "not cumulative." Opp. at 7, 14, 15 n.3. But neither of these findings show the products would have rendered the claims invalid, contradicted a statement to the Patent Office, or otherwise influenced the Patent Office's decision. Pet. at 14, 18. Indeed, Judge Newman recognized that if a stricter legal standard for materiality were applied in this case—including the one in the Patent Office's own regulation—there could be no inequitable conduct on this factual record. (App. 33a-37a.) The district court's observation that Avid's products were "highly material" is not a factual finding, as Allflex suggests, but an incorrect legal conclusion based on applying the wrong legal standard for materiality. Thus, if the Court answers question 2 "no" as a matter of law, there can be no finding of inequitable conduct under the facts here.

B. The Federal Circuit's Decision Will Further Exacerbate the Recognized Harms from the Inequitable Conduct Doctrine.

Avid's petition describes the harms that have resulted from the Federal Circuit's departure from this Court's precedent. Pet. at 11-14, 20-30. Allflex never argues the Federal Circuit's inequitable conduct jurisprudence is consistent with this Court's precedent or Congress's codification of it in 35 U.S.C.

§ 282. Nor does Allflex dispute that the Federal Circuit's expansion of the doctrine has created these harms. Allflex cites no evidence to suggest they are "hyperbole." So if the Federal Circuit's decision is an "unremarkable, straightforward," and "routine application" of its current precedent, as Allflex urges, Opp. at 14-15, that is all the more reason to grant *certiorari*. This Court needs to bring the doctrine back in line with its own precedent and relieve the Patent Office from the flood of marginally relevant material it must now process.

Allflex claims the Federal Circuit's decision is only a modest expansion of liability because the panel majority said it was not "automatically extend[ing]" the doctrine "to all individuals on the commercial side of product development." Opp. at 17 (quoting App. 17a n.3). That is indeed what the panel majority said. But if Dr. Stoddard can be charged with inequitable conduct despite his lack of participation in the preparation or submission of anything to the Patent Office related to patentability or his lack of knowledge in the relevant art of the invention, there is no logical way to limit the holding in this case from always sweeping in most executives, marketing people, and senior employees in research and development.

Allflex claims that subjecting these individuals to charges of inequitable conduct is good because it will encourage them to bring the company's prior art products to the Patent Office's attention. Opp. at 18. But the Patent Office itself says it already has too much information to review. Pet. at 21-22, 25-26. That is why its regulations limit the duty of disclosure to those who are "substantively involved in the preparation or prosecution of the application," rather

than extending it to everyone at the company "who is associated with the inventor." 37 C.F.R. § 1.56(c).

More fundamentally, this Court created the doctrine not "as a universe principle to encourage a patent owner to disclose (excessive amounts of) prior art, but only as a remedy for truly abusive behavior." Hon. Randall R. Rader, *Always at the Margin: Inequitable Conduct in Flux*, 59 AM. L. REV. 771, 781 (2010). It should return the doctrine to that narrow class of cases.

This case is not one of them. Contrary to Allflex's suggestion, Opp. at 7-8, 18, neither the jury nor the district court ever found Dr. Stoddard destroyed evidence of Avid's prior sales. (App. 47a.) The jury must have believed Dr. Stoddard, for it found the prior art products are not invalidating. And again, Dr. Malm's uncontroverted testimony establishes that Dr. Stoddard did not participate in the application process. (C.A.App. A14100, A14104, A16649-50.) This was unsurprising because, as Dr. Malm also testified without contradiction, Dr. Stoddard was a veterinarian who had no involvement in the conception or development of the complex RFID technology of the patented invention. (*Id.* at A16650.) Dr. Stoddard is thus not the nefarious executive that Allflex paints him to be.

The fact this was the Federal Circuit's "first opportunity" to expand inequitable conduct to sweep in so many new categories of people, Opp. at 17, just demonstrates that defendants' allegations were previously focused on people with actual involvement in preparing or submitted information to the Patent Office regarding patentability. Now, the Federal Circuit has exposed individuals with no such involvement to charges of misconduct. This Court should

step in immediately, while it can still limit the damage.

C. There is Still an Article III Controversy in This Case.

This Court has held that a settlement agreement that resolves some but not all issues between parties does not render the case moot with respect to the remaining issues. *Nixon v. Fitzgerald*, 457 U.S. 731, 743-44 (1982); *Havens Realty Corp. v. Coleman*, 455 U.S. 363, 370-71 (1982). This is a sensible approach because it encourages parties to settle the issues they can, simplifying the remaining litigation. The parties in *Havens* and *Nixon* had settled their disputes regarding the amount of damages, setting liquidated amounts for the plaintiff to recover if it succeeded, but continued to dispute whether there was liability. *Id.* The Court found a continuing Article III controversy in both instances because liability remained disputed and money would change hands based on whether the Court found liability on the merits. *Id.*

The same is true here. The parties' settlement resolved "all claims and counterclaims, except as they relate to the '326 patent," which is the patent at issue on appeal. (C.A.App. A16619-20.) It set a liquidated damages award of $26,981 for Avid if it obtained reversal of unenforceability finding. (*Id.*) That is the jury's entire award for patent infringement, far more than remained at stake in *Havens* ($400), and almost as much as in *Nixon* ($28,000). The agreement left Datamars free to oppose Avid's appeal on the merits at the Federal Circuit and in this Court. (*Id.*) Article III jurisdiction has always remained at issue because the courts have an inde-

pendent obligation to assess it. Thus, an Article III controversy remains under *Havens* and *Nixon*.

Neither of Allflex's cases holds otherwise. Instead, they involve situations where the parties' settlement resolved every merits issue. For example, *Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216 (Fed. Cir. 2001), found the patentee's appeal of a summary judgment of invalidity was moot after the parties entered into a settlement agreement to "settle all claims between them" and to dismiss "with prejudice . . . all claims by and between all parties." *Id.* at 1218-20. The parties had not carved validity out of the settlement agreement, and a reversal on that issue would not have adversely impacted the defendant. *Id.* Here, by contrast, the parties' settlement agreement explicitly excludes the '326 patent. (C.A.App. A16619-20.) And reversal would adversely impact Datamars because it would lose a significant sum.

Likewise, *Gator.com Corp. v. L.L. Bean, Inc.*, 398 F.3d 1125 (9th Cir. 2005) (*en banc*) was a trademark case where the parties entered into a settlement before appeal. The trademark holder had released the infringer from "all liability," and the infringer agreed to permanently stop the alleged wrongful conduct. *Id.* at 1130-31. The only issue on appeal was whether the district court had personal jurisdiction over the case in the first place. The Ninth Circuit found the case moot because every merits issue had been resolved. *Id.* It did not matter that the settlement agreement provided that the plaintiff would recover $10,000 if the Ninth Circuit reversed on personal jurisdiction. The parties could not have come into court initially just to resolve a $10,000 bet about whether the court would find personal jurisdiction

over the defendant, so they could not continue to litigate solely for that purpose. *Id.* at 1131-32. Again, that is not the case here: the parties still dispute a merits issue that triggered this lawsuit—whether Datamars is liable for infringement of the '326 patent.

Allflex claims there is no Article III jurisdiction because the liquidated damages here are too small to make Datamars "a true adversary." Opp. at 22. But when parties still dispute a federal claim on the merits and damages are at stake, there is Article III jurisdiction, regardless of the amount in controversy. A court would not dismiss a complaint pleading a federal claim as "moot" because the plaintiff's damages claim was too small, even if the defendant failed to answer. It should not do so now simply because other claims have dropped out of the case.

So there is no reason to deny or dismiss the petition for lack of Article III jurisdiction. If anything, this case presents an opportunity for this Court to reaffirm its holdings in *Havens* and *Nixon*—another reason to grant *certiorari*.

What is more, Datamars's absence is not a prudential reason to deny *certiorari*. Allflex's participation ensures all issues will receive thorough adversarial presentation and that Avid will not be "litigating by itself." Opp. at 15, 25. Allflex has explained its strong interest in defending the judgment. Opp. at 1-2. It has been a determined opponent, filing briefs in the district court, Federal Circuit, and this Court. *Id.* Allflex would certainly attempt to file a merits brief and speak at oral argument for affirmance if this Court granted *certiorari*, and Avid would have no objection to it doing so.

D. At a Minimum, This Court Should GVR for Reconsideration After *Therasense*.

Allflex offers no good reason why this Court should not, at a minimum, GVR this case so the Federal Circuit can reconsider its decision in light of the forthcoming *en banc* decision in *Therasense*. Allflex has no answer for the fact that this Court has previously used the GVR mechanism to return cases to a Court of Appeals when an intervening *en banc* decision from that Circuit may change the result. Pet. at 32-33. Judge Newman thought *Therasense* might change the result in this case because it will address the second question presented by this petition. (App. 33a-37a.) That warrants at least a GVR here.

Allflex dismisses Judge Newman's views because the jury's verdict the patent is not invalid was never reviewed by a judge. Opp. at 24. But that is because Datamars never filed a post-trial motion on validity, even before the settlement. Anyway, the validity finding cannot be suspect because it was arrived at in the manner protected by the Seventh Amendment. Allflex also ignores that Judge Newman's dissent rested not just on the jury verdict but her own determination that Avid's prior products were not "material" under the Patent Office's own regulations. (App. 37a.)

Allflex never addresses the unfairness that would result if this case does not receive the equal treatment that *Therasense*, which is simultaneously pending, receives. Preventing such unfairness is precisely the purpose of the GVR procedure. A GVR is particularly appropriate here given the collateral consequences of the judgment. The inequitable conduct finding has prevented Avid from asserting its otherwise valid patent against Allflex in the pending

California litigation and has even subjected Avid to a charge it violated the antitrust laws.

Allflex speculates that *Therasense* will not change the result here because Judge Linn and Chief Judge Rader did not dissent from Avid's motion for a stay. Opp. at 24. But neither judge stated views on Avid's motion one way or the other. Those judges (or others) may have voted for a stay without publicly noting their votes, just as a member of this Court can vote in favor of *certiorari* without publicly noting it.

There would be no unnecessary burden to the Federal Circuit from a GVR. If *Therasense* would change the outcome here, any such burden is outweighed by the interest in equal treatment of similar cases. And if *Therasense* does not change the result, the Federal Circuit could reinstate its prior opinion without expending additional resources. The time it would take the Federal Circuit to decide that issue would not, as Allflex argues, allow Avid "to reap further undeserved benefits and to perpetuate uncertainty in the marketplace." Opp. at 25. Avid is obtaining no benefit from "delay" because its patent is currently unenforceable against anyone, as the California court in the Allflex litigation has expressly held. It would thus be "grievously unjust," as Judge Newman put it, not to at least GVR. (App. 34a.)

CONCLUSION

The Court should grant plenary review, or, at a minimum, GVR with instructions to further consider this case in light of *Therasense*.

Respectfully submitted,

JUANITA R. BROOKS
Counsel of Record
JOHN W. THORNBURGH
MICHAEL A. AMON
CRAIG E. COUNTRYMAN
Fish & Richardson P.C.
12390 El Camino Real
San Diego, CA 92130
(858) 678-5070
brooks@fr.com
Counsel for Petitioner

NOVEMBER 2010